

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 6457**

**BILL NUMBER:** HB 1092

**NOTE PREPARED:** Apr 28, 2003

**BILL AMENDED:** Apr 26, 2003

**SUBJECT:** Judge Pro Tempore Service Credit Purchase.

**FIRST AUTHOR:** Rep. Kersey

**FIRST SPONSOR:** Sen. Bray

**BILL STATUS:** Enrolled

**FUNDS AFFECTED:** X **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (CCR Amended) This bill: (1) provides that a senior judge receives a per diem of \$50 for each of the first 30 days of service in a calendar year and, for each day after the first 30 days, a \$100 per diem; (2) provides that the Supreme Court may adjust the compensation rate if there are insufficient funds in the payroll fund; (3) allows a judge to purchase service credit for service as a full-time judge pro tempore. (The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

**Effective Date:** July 1, 2003.

**Explanation of State Expenditures:** *Senior Judge Per Diem Summary:* Assuming that senior judges continue to work an average of 61 days per year, the added payments for senior judges would be an estimated \$100,750 if no adjustments are made in the per diem salaries. The Supreme Court would have the discretion to reduce senior judge payments if the payroll fund is not sufficient to pay these added costs.

*Background Information on Senior Judge Per Diem:* These estimated costs are based on the following known facts concerning the average pension payments that senior judges received in FY 2001 and the salary of current trial court judges.

<b>Known Facts:</b>	
Number of trial court senior judges receiving benefits in CY 2001	65
Number of days of service in CY 2001	3,970
Expenditures @ \$50 per diem in CY 2001	\$198,500
Average number of days per senior judge in CY 2001	61
Number of retired members in FY 2001	256

The following table shows the method of estimating these added costs.

<b>Method for Estimating the Added Cost of Increasing the Payments of Senior Judges</b>					
	Current Law		Proposed		<u>Added Cost</u>
	<u>Per Diem</u>	<u>Per Senior Judge</u>	<u>Per Diem</u>	<u>Per Senior Judge</u>	
First 30 Days	\$50	\$1,500	\$50	\$1,500	\$0
Next 31 Days	\$50	<u>\$1,550</u>	\$100	<u>\$3,100</u>	<u>\$1,550</u>
Total Cost		\$3,050		\$4,600	\$1,550
Number of Senior Judges		<u>65</u>		<u>65</u>	
<b>Total Cost For Proposal</b>		<u><u>\$198,250</u></u>		<u><u>\$299,000</u></u>	<u><u>\$100,750</u></u>

*Purchase of Service Credit Provision:* This provision can result in increased future payouts from the Judges' Retirement System in certain situations, as described below.

The bill allows a judge to purchase service credit for service as a full-time judge *pro tempore*. Contributions must be equal to the product of the following: (1) the member's salary at the time the member actually makes a contribution for the service credit; and (2) a rate determined by the actuary of the fund based on the age of the member at the time the member actually makes a contribution for service credit and computed to result in a contribution amount that approximates the actuarial present value of the benefit attributable to the service credit purchased. However, a couple of circumstances under which a member of the Judges' Retirement System may wish to purchase service credit and the potential impact to the funds are identified below.

(1) If a member wanted to purchase service credit, the actuary for the fund calculates the cost of that service based on the member's current salary, current Judges' Retirement System service earned, and the member's current age. This cost represents the full actuarial cost of the service at the time of the purchase (excepting any future cost-of-living adjustments (COLAs) that may be awarded). In other words, if a member purchases the service credit on one day and then retires with benefits commencing the next day, there would be no immediate fiscal impact to the Judges' Retirement System. There also would be no immediate real gain to

the member because the additional benefits received due to the service would be actuarially equivalent to the purchase price of the service. This changes, however, once a COLA has been awarded. Since COLAs were not included in the purchase price, such a COLA would represent a real gain to the member and a fiscal impact to the Judges' Retirement System.

(2) If the member purchases service credit and continues employment, the member may also be able to benefit from the earlier purchase of service credit for a second reason. As the member continues employment, the member can expect increases in salary. These salary increases will increase the benefit the member can expect to receive at retirement. However, the purchase price of the service was based on the member's salary **at the time of purchase** before any increases in salary. Any increase in the value of the member's benefit because of salary increases was not included in the purchase price, therefore representing a real gain to the member and an impact to the fund.

**Explanation of State Revenues:** *Senior Judge Per Diem Provision:* An estimated \$3,425 would be collected by the state in the form of Individual Adjusted Gross Income taxes on the additional per diem amounts resulting from this bill.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Public Employees' Retirement Fund as administrators of the Judges' Retirement System Office of State Court Administration.

**Local Agencies Affected:** Trial courts; St. Joseph Superior Court.

**Information Sources:** Office of State Court Administration; Judges' Retirement Fund .Doug Todd of McCready & Keene, Inc., actuaries for the Judges' Retirement System, 576-1508.

**Fiscal Analyst:** James Sperlik, 317-232-9866; Mark Goodpaster, 317-232-9852.

**DEFINITION**

**Actuarial Funding Method:** Any of several techniques that actuaries use in determining the amounts and incidence of employer contributions to provide pension benefits.